

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the financial year ended 31 March 2003, the Group recorded a turnover of approximately HK\$520,857,000 (2002: HK\$518,281,000) up 0.5% compared to the previous year, while profits attributable to shareholders were HK\$8,549,000 (2002: HK\$8,899,000), slightly declined from the previous year. This was a result of intense competition in the PU materials industry which diminished the profit of the operations of the Group. Given the above difficulties, we strived to sustain our results by implementation of stringent cost control and introduction of a discriminative pricing approach in accepting sales order of the PU materials. Earnings per share sustained at HK0.9 cent (2002: HK0.9 cent).

OPERATIONAL REVIEW

During the year under review, revenue derived from distribution of PU material and manufacturing of PU foam and related products accounted for approximately 80.4% (2002: 78.1%) and 19.6% (2002: 21.9%) of the Group's total revenue respectively. The principal market of the Group was PRC, accounted for approximately 77.4% (2002: 73.7%) of the Group's turnover. Revenue derived from Hong Kong and overseas market were approximately 19.5% (2002: 22.7%) and 3.2% (2002: 3.6%), respectively.

Distribution of PU material

During the year under review, the turnover of distribution of PU materials was HK\$418,688,000, representing an increase of approximately 3.5% compared to the previous year. The operating profit of the distribution of PU materials was HK\$8,843,000, representing a decrease of 11.7% compared to the previous year. The decrease was attributable to the exacerbated competition of the industry. The Directors are of the view that the intense competition of the industry diminished the profitability. In response to these structural changes of the industry, the Group launched a restructuring exercise which the Group disposed its manufacturing operations, along with the implementation of discriminative pricing strategies on its clientele basis. Sales orders were made based on above-break-even approach which secured profitability of the Group. Moreover, only clients with good track records of reasonable settlement duration will be selected. The Directors believe these stringent policies will help stabilizing the profit margin and liquidity of the Group.

On the other hand, the Group is keen on exploring new market segments and business diversification to sustain the profitability and stimulate growth of the Group.

Manufacturing of PU foam and related products

In order to capture an increase in the demand of home accessories products in the PRC and achieve competitive edges with other competitors in the industry, the Group disposed its manufacturing operation of PU foam and related products to an independent third party with a profit of HK\$1,973,000.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

OPERATIONAL REVIEW *(continued)*

Manufacturing of PU foam and related products *(continued)*

The operating performance from the sales and manufacturing of PU foam and related products was disappointing during the year under review. The Group experienced a drop in turnover of 10.1% to HK\$102,169,000 (2002: HK\$113,604,000). The operating profits also dropped from HK\$4,960,000 to HK\$3,346,000, representing a 32.5% decrease compared to the previous year. This was mainly attributable to the exacerbated competition in the industry which turned the industry to be unattractive. The Directors were of the views that manufacturing operations required significant capital commitment which posed threats on the liquidity position of the Group and created inflexibilities in allocation of working capital. The Directors also anticipates that the profit margin of manufacturing operations will continue to shrink in the future.

DIVIDENDS

The Directors do not recommend the payment of final dividend for the year ended 31 March 2003 (2002: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group financed its operations with internally generated cash flows. The Group adopted a prudent financial policy such that it could meet the financial obligations when they fall due and maintain a sufficient operating fund for the development of the Group's business. As at 31 March 2003, the Group's pledged bank deposit and cash and balances amounted to approximately HK\$23,892,000 (2002: HK\$7,750,000) and HK\$29,676,000 (2002: HK\$35,060,000) respectively.

As at 31 March 2003, trade finance facilities for the Group amounted to approximately HK\$42 million. Based on the Group's present capital base, the bank balances, pledged bank deposits and banking facilities available, the Directors believe the Group has sufficient working capital for its present requirements and developments.

As at 31 March 2003, the current ratio (current assets divided by current liabilities) was 1.82 times (2002: 1.88 times) and the gearing ratio (finance lease payables divided by shareholders' equity) was 0.53% (2002: 0.53%).

CHARGE ON ASSETS

As at 31 March 2003, pledged bank deposits of approximately HK\$23,892,000 (2002: HK\$7,705,000) were pledged to secure banking facilities granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

As at 31 March 2003, substantially all of the monetary assets of the group was comprised of cash and bank balances and pledged bank deposits, which denominated in Hong Kong dollars. In addition, the Group's finance lease payable was in fixed interest rates, hence exchange risk of the group is minimal.

As at 31 March 2003, the Group did not have any foreign currency investments which has been hedged by currency borrowings and other hedging instruments.

CONTINGENT LIABILITIES

As at 31 March 2003, the Company continued to provide corporate guarantees, with unlimited amount, in favor of banks in respect of general banking facilities granted to certain subsidiaries. As at 31 March 2003, the subsidiaries had utilised approximately HK\$42 million (2002: HK\$41 million) of the facilities.

CAPITAL COMMITMENT

The Group did not have any capital commitment as at 31 March 2003.

MATERIAL ACQUISITIONS AND DISPOSALS

Pursuant to a conditional sale and purchase agreement dated 24 April 2002, the Group disposed of its entire interest in Luen Tai Component Limited and Luen Tai Industrial (H.K.) Limited together with their wholly-owned subsidiaries, all of them being wholly-owned subsidiaries of the Group, to independent third parties at a consideration of HK\$200,000 and HK\$15,000,000 respectively. The PU foam and related products segment therefor became discontinued operation at year end.

During the year under review, there was no other material acquisition or disposal of any subsidiary, associate or joint venture of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2003, the Group's total number of staff was 51 (2002: 41). Salaries of employees are maintained at a competitive level. The Group has not encountered any problem with the recruitment of its employees. None of the companies in the Group has experienced any labour disputes during the Year and the Directors of the Company consider that the Group has maintained an excellent employment relationship.

The Group remunerates its employees largely based on industry practice. Remuneration packages comprised salary, commissions and bonuses based on individual performance.